
INVESTMENT POLICY STATEMENT

For

**State of Indiana Public Employees Deferred Compensation
457/401(a) Plans:**

State of Indiana 457 Retirement Plan

State of Indiana 401(a) Retirement Plan

State of Indiana 457 Retirement Plan- Local Political Sub-Divisions

State of Indiana 401(a) Retirement Plan- Local Political Sub-Divisions

Prepared: October 2005

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PURPOSE

State of Indiana maintains the State of Indiana Public Employees Deferred Compensation 457/401(a) Plans: State of Indiana 457 Retirement Plan, State of Indiana 401(a) Retirement Plan, State of Indiana 457 Retirement Plan- Local Political Sub-Divisions and State of Indiana 401(a) Retirement Plan- Local Political Sub-Divisions (hereafter the “Plans” and, individually, a “Plan”) to provide retirement benefits for eligible employees. The Plans permit participants to direct the investment of their respective accounts among available investment options.

The purpose of this Investment Policy Statement (IPS) is to reflect the overall investment objectives of the Plans, the methodology for choosing and overseeing the investments, and the evaluation measures used to evaluate the Plans’ investments. The Plans’ investment program is defined in the various sections of the IPS by:

- Stating in a written document the Indiana Deferred Compensation Committee's (hereafter the “Committee”) objectives, and guidelines in the investment of all Plans’ assets. The five-member Committee is established under the Indiana Code 5-10-1.1-4.
- Encouraging effective communications between the Committee, the Investment Consultant, the Investment Managers, and the participants.
- Setting forth an investment structure for managing all Plans’ assets. This structure includes various asset classes and investment management styles. The Plans intend to provide an appropriate range of investment options that will span the risk/return spectrum.
- Establishing the criteria and procedures for selecting investment options and Investment Managers.
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the Investment Managers on a regular basis.
- Demonstrate that the Committee is fulfilling its fiduciary responsibilities in the management of the investments of the Plans solely in the interests of participants and beneficiaries of the Plans.
- Conform to best practices of peers and as indicated in leading policy standards recommended by the Uniform Management of Public Employee Retirement Systems Act, the Uniform Prudent Investor Act, and the Public Pension Systems Statements of Key Investment Risks and Common Practices to Address Those Risks.

This IPS has been prepared after consideration by the Committee of the financial implications of a wide range of policies, and describes the prudent investment process that the Committee deems appropriate. This IPS is intended to be dynamic in nature and will be amended or revised periodically as needed.

STATUTORY AUTHORITY

The Indiana Deferred Compensation Plan was originally created under P.L. 42 in 1975. Subsequent legislative actions in 1980, 1988, 1995, and 2001 created the ability of political subdivisions to adopt the state plan, for the State of Indiana to create a matching 401(a) qualified plan and for political subdivisions to adopt the State's 401(a) qualified plan. Collectively, all these plans are referred to in the Investment Policy Statement as the "Plans". The Plans were established for exclusive benefit of eligible employees of State of Indiana or participating local political subdivisions, as well as beneficiaries of participating employees. The purpose of the Plans is to provide retirement benefits to participants and their beneficiaries through participants' salary deferrals and earnings thereon, as well as employer contributions to the 401(a) plans.

Key information regarding the Plans can be found in Appendix A.

STATEMENT OF OBJECTIVES

The objectives of the Plans have been established in conjunction with a comprehensive review of the current position. The objectives are:

- Provide choices with clearly defined investment strategies to the Plans' participants.
- Provide Plans' participants with investment choices that are diversified across a range of risk levels, asset classes, and investment strategies in order to accommodate the varying levels of needs and risk tolerance of the Plans' participants in constructing portfolios to meet their particular financial goals.
- Allocation of participant accounts between investment options will be the responsibility of the participant.
- Provide Plans' participants with investment options that have been selected following a thorough due diligence process.
- Monitor the performance of investment options consistent with best practices to satisfy the Committee's fiduciary responsibilities.
- Control the costs of administering the Plans and managing the investments.
- Maintain flexibility in meeting the future needs of the participants.

RESPONSIBILITIES

Responsibilities of the Deferred Compensation Committee

Deferred Compensation Committee Organization

The Deferred Compensation Committee is a five-member Committee established under Indiana Code 5-10-1.1-4. The Committee serves as the Trustee ("Trustee") of the Plans. As such, the Committee is responsible for the prudent administration of the Plans with specific responsibilities, which include: design of Plans' investment platform; establishing investment policy objectives and guidelines; prudent selection of Investment Managers; and ongoing monitoring. Under IC 5-10-1.1-4, the deferred compensation committee shall, at least annually, report to the state board of finance on the status of the state employees' deferred compensation plan, including any changes to the plan. See IC 5-10-1.1-4. Committee members or anyone acting on their behalf must comply with these provisions. The Committee shall also conduct its responsibilities as outlined in this IPS.

The Committee is comprised of a Governor's Appointee, an Auditor's Appointee, a Treasurer's Appointee and two Board of Finance Appointees. The Committee members of the Plans are fiduciaries, and are responsible for providing the investment framework and monitoring the investment management of Plans' assets.

Deferred Compensation Committee Fiduciary Responsibility

The members of the Committee recognize that they serve as fiduciaries of the Plans. One of their primary responsibilities is providing for the prudent investment of Plan assets. Thus, the Committee shall exercise the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. The Committee must also provide for the diversification of the investments of the Plans in accordance with prudent investment standards. The Committee has a duty of undivided loyalty, and must be impartial in the exercise of such duty to the beneficiaries of the Plans, as all Plan assets must be used for the exclusive benefit of the Plans' covered members and their beneficiaries. No part of the corpus or income may be used for or diverted to any purpose other than for the "exclusive benefit" of the members or their beneficiaries. See IC 5-10-1.1-4. Committee members or anyone acting on their behalf must comply with these provisions.

Deferred Compensation Committee Additional Guidelines

In addition, the following guidelines are applicable to the Committee:

1. *Compliance with Code of Ethics:* The Committee recognizes that it is governed by a strict code of ethics. Because the Committee believes that public confidence in the Committee's integrity is essential not only for participants in the Plans, but also for the public and taxpayers of the State of Indiana as well, the Committee wishes to ensure that their actions conform not only with the letter of the law but also with the spirit of the law. The Committee acknowledges that it is under the jurisdiction of the State Ethics Commission and is governed by the State Ethics Commissions rules.

The Indiana Code of Ethics covers employees and provides that:

RESPONSIBILITIES

A state officer or employee may not receive compensation from any person whom he knows or, in the exercise of reasonable care and diligence should know, has a business relationship with the agency in which the state officer or employee holds a position. See IC 4-2-6-7(2). "Compensation" means any money, thing of value, or financial benefit conferred on, or received by, any person in return for services rendered, or for services to be rendered, whether by that person or another. See IC 4-2-6-1 (6).

2. *Conflict of Interests Rules:* Committee members recognize that all Plans' transactions and selections are to be based on the integrity and competence of the parties with whom the Plans is dealing and upon financial merit and benefit to Plans' participants and their beneficiaries, and not on personal relationships. Committee members shall never act where there may be a conflict of interest or appearance of conflict of interest. They realize they occupy special positions of fiduciary trust and confidence such that each member must studiously and conscientiously avoid any reasonable appearance of conflict. A conflict of interest is understood to be presented in a situation wherein a relationship exists which could reasonably be expected to diminish independence or judgment in performance of official responsibilities as a Committee member. Accordingly, a Committee member shall not engage in conduct that constitutes or involves a conflict of interest. It is the Committee member's duty to determine if a potential conflict of interest exists, to avoid the conflict, if possible, or, where applicable, to disclose a conflict. If a Committee member determines that a conflict of interest or potential conflict of interest exists, that individual shall have an obligation to recuse themselves from participating in the matter. The Committee member shall disclose the reason for any such recusal.
3. *Voting:* Committee members should not participate in a discussion or vote on a matter in which they have a direct or indirect significant financial interest. However, this prohibition does not arise in connection with a matter which would have an insignificant economic effect on any interest of the Committee member, or which affects the member only as a member of the general public or of a subgroup of the general public, such as participants in the Plans as a whole.
4. *Disclosure:* Any person who serves on the Committee shall fully disclose any substantial interest in any entity in which an investment has been made with monies of the Plans. Furthermore, Committee members shall disclose any significant business relationship they have with any vendors or prospective vendors serving or considered for service to the Plans.

Deferred Compensation Committee Delegation Authority

The Committee is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

RESPONSIBILITIES

1. *Investment Consultant ("Consultant").* The Consultant will assist and be co-fiduciary with the Committee in: establishing investment policy objectives and guidelines; selecting Investment Managers; reviewing such Investment Managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate, and as otherwise provided through a contractual agreement between the parties. Capital Cities, LLC shall be the Investment Consultant to the Plans and the services to be provided shall be as set forth in the Investment Consultant Agreement attached hereto and made a part hereof, as Attachment A.
2. *Investment Manager.* The Investment Manager has discretion to purchase, sell, or hold the specific securities or products that will be used to meet the Plans' investment objectives. Investment Managers include mutual funds and commingled investment vehicles, and as otherwise provided through a contractual agreement between the parties. Investment Managers will vote the proxies received for the holdings within their portfolios.
3. Additional specialists such as attorneys, auditors, and others may be employed by the Committee to assist in meeting its responsibilities and obligations to administer Plans' assets prudently.

Responsibilities of the Administrator

Administrator Organization

The Indiana State Auditor, as the Administrator ("Administrator") of the Plans, is responsible for all services involved in administration of the Plans. IC 5-10-1.1-1.5(b) and 5-10-1.1-5.

Administrator Delegation Authority

As such, the Auditor of the State is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. *Recordkeeper.* The Recordkeeper will calculate individual participant balances; and process participant contributions, disbursements, loans and hardship withdrawals. The Recordkeeper will continually reconcile participant balances with trust account balances to maintain alignment, and as otherwise provided through a contractual agreement between the parties. The responsibilities of Great-West Life & Annuity Insurance Company as directed Third-Party Administrator ("Third-Party Administrator") shall be set forth in the agreement between the Indiana State Auditor and Great-West Life & Annuity Insurance Company, as herein incorporated by reference as Attachment B. Any successor to Great-West, or subsequent contract with Great-West or any other entity, for Recordkeeper services shall also perform the above functions.
2. Additional specialists such as attorneys, auditors, and others may be employed by the Auditor to assist in meeting its responsibilities and obligations to administer Plans' assets prudently.

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3. *Proxy Voting.* All proxy voting on the Plans' mutual funds are to be received and dealt with by the Administrator.

Responsibility of Participants

The Plans are self-directed, and consequently each participant has the responsibility to make his or her own decisions regarding the combination of investment options that best matches his or her needs. Participants are responsible for electing a combination of Investment Funds based on the participant's unique time horizon, risk tolerance, return expectation, and asset class preferences. Neither the State of Indiana nor the Committee make any representation to participants regarding the outcome of individual investment decisions or the adequacy of retirement funds to meet their retirement needs.

GUIDELINES AND INVESTMENT POLICY

Risk Tolerances

The Committee recognizes the difficulty of achieving the Plans' investment objectives in light of the uncertainties and complexities of the investment markets. In establishing the risk tolerances of the IPS, the Committee, with the assistance of the Investment Consultant, evaluated the ability of the participants to gain access to a wide range of investment styles covering a broad range of risk and return characteristics. The Committee, with the assistance of the Investment Consultant, sought to provide participants with a broad array of investment choices so they have the ability to construct portfolios which could represent a variety of levels of risk and return regardless of time horizon.

Asset Allocation Constraints

The Committee and the Investment Consultant have reviewed the long-term performance characteristics of various asset classes, focusing on balancing the risks and rewards of market behavior. In order to allow participants to construct broadly diversified portfolios, investment options representing the following six asset classes were selected.

- *Domestic Large Cap Equities*
- *Domestic Mid/Small Cap Equities*
- *International Equities*
- *Lifestyle/Balanced*
- *Domestic Fixed Income*
- *Cash/Stable Value*

In addition to the broad asset classes, options will be offered to allow participants to choose from a broad range of equity and fixed income styles. For a definition and explanation of each asset class, please refer to the investment options section of the IPS located in Appendix B.

SECURITIES GUIDELINES

The mutual funds and commingled investment vehicles selected by the Committee must adhere to the terms and conditions set forth in the applicable prospectus and/or trust document.

Stable Value Fund Background

The Stable Value Fund seeks to provide a high level of stable current income while providing preservation of capital.

The Stable Value Fund consists of four (4) parts: a money market fund, a short-duration fixed income fund; an intermediate-duration core plus fixed income portfolio, and a stable value wrap. The combination of these funds into one portfolio, along with the stable value wrap, is expected to generate a relatively stable level of current income while preserving participants' capital.

The stable value wrap is provided by the Global Wrap Manager. The Global Wrap Manager is permitted to sub-advise this function to a Global Wrap Sub-advisor. The Global Wrap Manager (or Sub-advisor) will contract with one or more wrap providers to insure the stability of the fund.

The Indiana Deferred Compensation Committee, through a series of resolutions, established the structure of the Stable Value Fund. On March 5, 2002, the Committee resolved, after reviewing Broad Agency Announcement responses, that Fidelity Investments and Lincoln National would act as co-investment managers for the Stable Value Fund. On June 12, 2002, the Committee resolved that the co-investment managers would each manage 50% of the Stable Value Fund assets with Lincoln/Delaware acting as Global Wrap Manager. Finally, on August 23, 2002, the Committee resolved that the structure and rebalancing rules of the Stable Value Fund be established as described below:

Stable Value Fund Asset Allocation and Rebalancing

Investment return of the Stable Value Fund is to be calculated and managed by the wrap provider to provide a participant a relatively stable credited interest rate. The credited interest rate is to be reset monthly. The credited interest rate cannot be less than 0.0%, subject to wrap providers satisfying their contractual obligations.

The Stable Value Fund targeted allocation is:

45% Managed Income Portfolio

45% Core Plus Portfolio

10% Cash Buffer

The Global Wrap Manager (or Sub-advisor) will use best efforts to rebalance any discrepancy between the amount of the Managed Income Portfolio and the Core Plus Portfolio as soon as possible through allocation of the daily net deposits and withdrawals into the cash buffer account in order to maintain the 45%/45% allocation between the two portfolios, within a +/- 1% band. If the Manager determines that it would be prudent to retain any such excess in the cash buffer account due to anticipated participant activity, the discrepancy may stand for short periods of

SECURITIES GUIDELINES

time. If the allocation is outside of the +/- 1% band at a month end, the Global Wrap Manager would automatically rebalance the Fund using the above procedure.

Stable Value Fund Guidelines

Specific portfolio guidelines for the Core Plus Portfolio follow the guidelines for the Stable Value Fund as a whole.

Stable Value Fund guidelines are as follows:

1. The fund shall have a global wrap manager (or managers) to provide wraps as needed;
2. The fund shall invest primarily in a diversified portfolio of investment grade securities and in stable value investment contracts. The fund may invest up to 5% of total fund assets in below-investment grade securities. If the ratings are “split” between ratings agencies, the higher of the ratings shall apply. In the event of security downgrades from above- to below-investment grade, the portfolio may be invested up to 7.5% of total fund assets in below-investment grade securities on a temporary basis.
3. Allowable investments include:
 - a. Debt securities issued by U.S. companies, asset-backed securities and mortgage-related securities.
 - b. Debt securities issued or guaranteed by the U.S. government, its agencies and instrumentalities.
 - c. Shares of commingled trusts or mutual funds.
 - d. Investment contracts, including Wrap Contracts offered by major insurance companies and other approved financial institutions.
 - e. U.S. Dollar denominated bonds issued by non-U.S. domiciled banks and corporations.
4. The minimum average credit quality of the total portfolio shall be a minimum of Aa2/AA by Moody's/S&P. If the ratings are “split” between ratings agencies, the higher of the ratings shall apply.
5. Units of the fund are not guaranteed by any of the fund's managers or advisors, the State of Indiana or any of its agencies or political subdivisions, or the FDIC.

Stable Value Core Plus portfolio guidelines are as follows:

1. The effective duration of the Portfolio is intended to be maintained within a range of +/- one quarter year (0.25 years) compared to the duration of the Lehman Brothers Aggregate Bond Index. Deviation from this may occur from time to time but the portfolio should be brought back within the range as soon as practicable.

SECURITIES GUIDELINES

2. The minimum average credit quality of the Portfolio will be Aa3/AA- by Moody's and S&P. If the ratings are "split" between ratings agencies, the higher of the ratings shall apply.
3. The exposure of the portfolio to any one issuer, other than securities of the U.S. government or agencies, shall be determined by rating classification. Single issuers rated 'A' or higher by any rating agency shall not exceed 5% of the portfolio. Single issuers rated 'BBB' or lower by any rating agency shall not exceed 3% of the portfolio. Securities rated below 'B' by all ratings agencies shall be prohibited. In the event that a holding is downgraded by all ratings agencies to less than 'B', the manager will sell the security no later than 90 days after the downgrade.
4. The following sector limits apply to the portfolio:

a. Mortgages or CMO's	50%
i. Agency-backed Mortgage Securities	45%
ii. Collateralized Mortgage Obligations (CMOs)	45%
b. Commercial Mortgage-Backed Securities (CMBS)	15%
c. Asset-Backed Securities (ABS)	45%
d. Corporate Bonds	60%
i. BBB-rated and below	20%
e. Short-term Investments	25%
5. The portfolio may lend up to 25% of its assets to qualified brokers, dealers, and institutional investors for their use in securities transactions. These transactions, if any, are expected to generate income for the Portfolio.
6. The portfolio is permitted to utilize derivatives for hedging and income enhancing strategies. Derivatives will not be used to expressly employ leverage or other speculative strategies. The aggregate notional value of derivative positions will not exceed 20% of the total portfolio value. Permitted derivatives will include:
 - a. Futures
 - b. Options
 - c. Swaps
7. U.S. dollar-denominated securities of foreign-based governments and corporations rated single-B or higher may be utilized in the portfolio.
8. In the event the portfolio receives equity securities as a result of a corporate action taken by or on behalf of the issuer of such equity securities, the Portfolio may hold such equity securities for a period of not more than twelve (12) months from the date of the equity issuance.
9. The following are prohibited investments and shall not be utilized in the portfolio (investments not specifically prohibited below are permissible):
 - a. Volatile mortgage-backed derivative securities, including but not limited to IOs, Pos, jump Z's, Inverse Floaters, CMO residuals;

SECURITIES GUIDELINES

- b. Uncovered options;
- c. Commodities;
- d. Foreign Currency;
- e. Non-U.S. dollar denominated securities;
- f. Short Sales;
- g. Use of margin;
- h. Acquisition of securities that would permit the portfolio to exercise control over the issuer.

SELECTION OF INVESTMENT MANAGERS

The Committee has the responsibility for selecting Investment Managers. The Committee, with the assistance of the Investment Consultant, will select appropriate Investment Managers to manage Plans' assets. The Committee's intent is to follow a process that embodies the principles of procedural due diligence. Accordingly, when selecting Investment Managers, the following minimum criteria must be met:

1. The Investment Manager will be a bank, insurance company, investment management company, or investment adviser as defined by the Investment Advisers Act of 1940.
2. Historical quarterly performance numbers calculated on a time-weighted basis will be utilized for performance screening.
3. Performance evaluation reports that illustrate the risk/return profile of the Investment Manager relative to other investment managers of like investment style will be utilized. Appropriate benchmarks (market indices and/or peer groups as provided in Appendix B) will be used for investment performance evaluation.
4. Detailed information on the history of the firm, key personnel, investment process, costs, and support personnel will be analyzed.
5. The Investment Manager's investment strategy shall be described, and its adherence to the strategy over time shall be documented. The strategy should be definable in terms of the methodologies utilized (i.e. passive (index) versus active management). The portfolio's characteristics should be consistent with the investment philosophy for which it was hired:
 - Equity managers: capitalization, style
 - Fixed income managers: duration, credit quality
6. Fees should be competitive compared to similar investments.
7. A clearly definable market and the availability of widely used benchmarks.
8. A clearly defined risk and return profile as exhibited by historical return analysis.

CONTROL PROCEDURES

Disclosure to Participants

The Plans choose to adhere to the following guidelines:

- The Plans will offer at least three broad-range, diversified investment options each with materially different risk and return characteristics;
- Participants will be allowed to transfer among the investment options as often as appropriate, considering the market volatility of the investment alternative. Currently the Plans offer daily transfers;
- Sufficient information will be available to participants so they can make informed investment decisions.

Participants have individual responsibility to direct investments in their accounts. In order to assist participants in their decisions, the Committee and Administrator will provide the following information to all participants:

- an explanation that the fiduciaries of the Plans may be relieved of liability for any losses which are the direct and necessary result of investment instructions given by participants;
- a description of investment alternatives, including their investment objectives, risk and return characteristics, and the type and diversification of assets comprising the portfolio of the designated investment alternative;
- identification of any designated Investment Managers;
- an explanation of when and how participants may give investment instructions, including any restrictions on transfers;
- a description of any redemption fees or withdrawal penalties applied to investment alternatives;
- a description of any transaction fees and expenses which affect a Participant's account balance in connection with purchases or sales of interests in investment alternatives;
- a copy of the most recent prospectus provided to the Plans will be provided to the Participant immediately following the Participant's initial investment in an investment subject to the Securities Act of 1933.

Additional disclosures that will be provided, upon request, are:

- a description of the annual operating expenses of each investment vehicle including the investment management and other fees;

CONTROL PROCEDURES

- copies of the most recent prospectuses, financial statements and reports, and any other materials relating to investment vehicles available under the Plans to the extent such information is provided to the Plans, will be provided upon request to Participants;
- a list of assets included in each investment option and the value of each asset;
- information concerning the value of shares or units in investment alternatives;
- performance data for each investment vehicle, net of expenses, presented over reasonable periods of time, calculated in a reasonable and consistent manner;
- the values of shares or units of investment funds held in a Participant's account balance as of the last valuation date (but not less frequently than quarterly).

The Committee will not provide individual retirement or investment counseling to participants. This IPS will be made available to eligible employees upon request. Efforts will be made to ensure all participants, regardless of whether or not they are current employees, receive all correspondence regarding Plans' developments and changes. However, ultimate responsibility for investment decisions rests with the participants. Participants are strongly encouraged to utilize all sources of information described above, as well as information provided on the HoosierStart website.

MONITORING OF INVESTMENT MANAGERS

The Committee is aware that the ongoing review and analysis of Investment Managers is just as important as the due diligence implemented during the Investment Managers selection process. The Committee may delete and/or replace a particular style of investment management, if they deem appropriate. In addition, the Committee may add a particular style of investment management, if deemed appropriate. Monitoring Investment Managers is a three step process, outlined below:

Step 1 - On-Going Monitoring

The Investment Consultant and the Committee will perform on-going analysis of all Investment Managers included in the Plans on a quarterly basis. In addition to reviewing quarterly investment performance, the Investment Consultant and the Committee will evaluate:

- Investment Manager's adherence to the IPS guidelines
- Material changes in the Investment Manager's organization, investment philosophy and/or personnel
- The volatility of the investment rates of return of the Investment Manager compared to the volatility of an appropriate market index and/or peer group (as listed in Appendix B)
- Comparisons of the Investment Manager's results to appropriate indices and/or peer groups (as listed in Appendix B)

Step 2 - Formal Watchlist

If the Investment Consultant and the Committee determine that any of the above factors, or any other development regarding the Investment Manager's performance or organization, warrants a more thorough examination, the Committee and Investment Consultant will place the Investment Manager on a formal "watchlist". Factors evaluated during the watchlist examination include, but are not limited to, the following:

- Extraordinary Events (Organizational Issues)

Extraordinary events may include such things as:

- Change in ownership (e.g., key people "cash out")
- Change in professionals
- Changes to an Investment Manager's philosophy or the process it uses to implement the agreed upon strategy
- Investment Manager is involved in material litigation or fraud
- Client-servicing problems
- Significant account losses or significant account growth
- Change in cost

- Long-Term Performance in Relation to Appropriate Market Index

Long-term performance standards measure an Investment Manager's performance over rolling five-year returns or since-inception in relation to the appropriate market index.

MONITORING OF INVESTMENT MANAGERS

- Shorter-Term Performance in Relation to Appropriate "Style (Peer) Group"

Shorter-term performance standards incorporate a time period of at least three years. Each Investment Manager is expected to consistently perform in the top 50th percentile versus an appropriate peer group of Investment Managers with similar investment styles. Additionally, each Investment Manager is expected to demonstrate favorable cumulative and rolling three-year risk-adjusted performance compared to its peer group. Risk-adjusted performance measures will vary, but may include: Sharpe Ratio, Downside Risk, Information Ratio, and/or Relative Standard Deviation.

Step 3 - Replace or Retain

As a result of the watchlist examination of the Investment Manager, a recommendation from the Committee or Investment Consultant to either **replace** or **retain** the Investment Manager will be made. If a recommendation is made to retain the Investment Manager, a watchlist evaluation period may be established to more closely monitor the Investment Manager. This period will generally be four quarters, but can be shorter or longer depending on the circumstances leading to the watchlist examination.

It is at the Committee's discretion to take corrective action by replacing an Investment Manager, if it deems it appropriate, at any time. The watchlist is not the only route for removing an existing Investment Manager. The aforementioned events, or any other events of concern identified by the Committee and/or the Investment Consultant, may prompt the immediate removal of an Investment Manager without it being watchlisted.

IPS REVIEW AND EVALUATION

The Committee and the Investment Consultant will review the IPS periodically to determine whether any changes are appropriate. Based on the Committee's and the Investment Consultant's IPS review, the Committee may revise the IPS or alter the Investment Managers to meet current needs. In conjunction with this review, as indicated previously, the Committee also will annually review the performance of Investment Consultant in carrying out its responsibilities under this IPS.

SIGNATURES

Prepared:
Capital Cities, L.L.C.

Accepted:
Indiana Deferred Compensation Committee

Date: _____

Date: _____

Investment Consultant

Honorable Tim Berry

Jeff Heinzmann

Ryan Kitchell

Honorable Judy Rhodes

Tony Armstrong

11. *Journal of the American Medical Association*, 2000; 283: 2686-2692.

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APPENDIX B

Selected Investment Options:

To provide appropriate investment alternatives for participants, investment choices will be made available that provide a broad range of risk and return characteristics. The Committee has selected options representing the following investment styles and objectives.

Large Cap Core Equity Index: Large Cap Core Equity Index Style managers hold portfolios with characteristics similar to those of the broader market as represented by the Standard & Poor's 500 Index or the KL Domini 400 Social Index.

Large Cap Value Equity: Large Cap Value Equity managers invest in predominately large capitalization companies believed to be undervalued or possessing lower than average price to book and price to earnings ratios. The companies are expected to have a near-term earnings rebound and realize their potential for capital appreciation.

Large Cap Growth Equity: Large Cap Growth Equity managers invest in predominately large capitalization companies that are expected to have above average prospects for long-term growth in earnings and profitability. Future growth prospects take precedence over valuation levels in the stock selection process.

Mid Cap Growth Equity: Mid Cap Growth managers invest primarily in mid capitalization companies that are expected to have above-average prospects for long-term growth in earnings and profitability. Future growth prospects take precedence over valuation levels in selecting stocks.

Mid Cap Value Equity: Mid Cap Value Equity managers invest primarily in mid-capitalization companies believed to be currently undervalued in the general market. Valuation issues take precedence over near term earnings prospects in the stock selection process. Market capitalizations are generally between core (large) equity companies and small capitalization companies.

Small Cap Broad Equity: Small Cap Broad Equity managers invest primarily in companies with relatively small capitalization. The companies typically have zero dividends or dividend yields below the broader market. The securities exhibit greater volatility than the broader market as measured by the risk statistics beta and standard deviation. Managers will generally invest in both value and growth stocks.

International Core Equity: International Core Equity managers invest in a well-diversified portfolio of mostly large issues in developed countries with liquid markets, resulting in characteristics similar to that of an index such as the Morgan Stanley Capital International (MSCI) EAFE Index.

Lifestyle/Balanced: This style consists of funds whose primary objective is to split its investment assets among stocks, bonds, and other investment vehicles in an attempt to provide consistent return for the investor while diversifying an investor's assets among different types of investment products.

APPENDIX B

Core Bond: Core Bond managers construct portfolios to approximate the investment results of the Lehman Brothers Government/Credit Bond Index or the Lehman Brothers Aggregate Bond Index with a modest amount of variability in duration around the index. The objective is to achieve value added from sector and/or issue selection.

Stable Value: Seeks to provide a competitive level of income over time while preserving the principal value. Returns are expected to be above that of a money market fund.

Selected Managers and Relevant Peer Group:

| Asset Category | Index | Peer Group Universe |
|--|------------------------------------|---------------------------|
| Domestic Large Cap Equity | | |
| Vanguard Institutional Index | S&P 500 | Core Equity |
| Domini Social Equity | S&P 500/KL Domini 400 Social Index | Core Equity |
| AllianceBernstein Growth & Income | S&P Value | Large Cap Value |
| Wells Fargo Advantage Capital Growth | Russell 1000 Growth | Large Cap Growth |
| Domestic Mid/Small Cap Equity | | |
| Janus Adviser Mid Cap Value | Russell Midcap Value | Mid Cap Value |
| Vanguard Capital Opportunity | Russell Midcap Growth | Mid Cap Growth |
| Fidelity Low-Priced Stock | Russell 2000 Value | Small Cap Value |
| Goldman Sachs CORE Small Cap | Russell 2000 | Small Cap Broad |
| International Equity | | |
| Fidelity Diversified International | MSCI EAFE | International Core Equity |
| Julius Baer International Equity II | MSCI EAFE | International Core Equity |
| Lifestyle/Balanced | | |
| Indiana Aggressive Lifestyle Portfolio | Indiana Aggressive Bench* | |
| Indiana Moderate Lifestyle Portfolio | Indiana Moderate Bench** | |
| Indiana Conservative Lifestyle Portfolio | Indiana Conservative Bench*** | |

APPENDIX B

| | | |
|------------------------------|----------------|-----------|
| | | |
| Domestic Fixed Income | | |
| PIMCO Total Return | LB Aggregate | Core Bond |
| | | |
| Cash/Stable Value | | |
| Indiana Stable Value Fund | 90 Day T-Bills | |
| | | |
| | | |

* IN Aggressive Bench = 51% S&P 500 + 13% Russell 2000 + 21% MSCI EAFE + 15% LB Agg

** IN Moderate Bench = 33% S&P 500 + 8% Russell 2000 + 14% MSCI EAFE + 40% LB Agg + 5% 90 Day T-Bills

*** IN Conservative Bench = 18% S&P 500 + 5% Russell 2000 + 7% MSCI EAFE + 50% LB Agg + 20% 90 Day T-Bills

ATTACHMENT A – INVESTMENT CONSULTANT AGREEMENT

ATTACHMENT B – THIRD-PARTY ADMINISTRATOR AGREEMENT
